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## **Investigation of Financial Mechanisms of Trade in Military Products in Collective Security Treaty Organization Countries**

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**Abstract:**

*During the late 1990s and early 2000s, regional organizations in the territory of the former Soviet Union were actively formed and developed, including at the initiative of the Russian Federation.*

*Such an initiative was conditioned, first of all, by the desire of Russia to provide organizational formations that would preserve certain continuity after the collapse of the USSR and would maximally form a system of allies along the borders.*

*This issue became especially urgent in 2014, when the political crisis in Ukraine aggravated the economic and military situation, which in turn led to threats near the Ukrainian border with the Russian Federation.*

*Accordingly, the most important issue for Russia is the Eurasian Economic Union – the most significant integration project of the Russian leadership in the post-Soviet space, which is a definite analogue of the European Union.*

**Keywords:** *Collective Security Treaty Organization (CSTO); military products; military cooperation; export credit; defense cooperation; security; foreign economic activity; EEU.*

**JELClassification:** *O10, O14, O31, O35.*

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## **1. Introduction**

The collective security system in the post-Soviet space was formed taking into account the positions of the individual states that made up the said system. The initiator and active supporter of strengthening interstate security ties in the post-Soviet space was Russia. In the post-Soviet space, the organization of the CIS could not replace the USSR being not viable, as there were significant socio-economic differences among members, which did not contribute to the integration of countries. In 1993, the Treaty on the Establishment of an Economic Union was signed, within which an agreement on a free trade zone was executed. In October 2000, the EEU was established within the Customs Union of Russia, Belarus, Kazakhstan, Kyrgyzstan and Tajikistan, and in the spring of 2002, the Collective Security Treaty Organization (CSTO) was formed on the basis of the Collective Security Treaty.

At the same time, in February 2003, a decision was taken to create a single economic space by such countries as Russia, Belarus, Ukraine and Kazakhstan. However, already in 2005, Ukraine suspended its membership in this project. Accordingly, in 2006, the Single Economic Space (SES) and the Customs Union were formed, and in 2010 a package was signed to form the SES, and the Treaty on the Eurasian Economic Union was ratified in the autumn of 2014 by all participants. In 2013, Armenia announced its desire to join the SES, due to complicated relations with neighboring countries: Azerbaijan and Turkey. And in October already Armenia joined the union, and in December it ratified the agreement. Kyrgyzstan declared its intention to join in 2011; in the winter of 2014, Kyrgyzstan signed the agreement on joining. In 2006, Uzbekistan joined the CSTO.

In turn, Ukraine in August 2017 adopted a government decree "On the termination of the Agreement between the Cabinet of Ministers of Ukraine and the Government of the Russian Federation on the procedure for cooperation in the export of military goods (products) to third countries", within which military-technical cooperation Ukraine and the Russian Federation was carried out since 2004. However, in fact, military and technical cooperation ceased in 2014, and intergovernmental agreements, including those related to cooperation, were broken off at the initiative of Ukraine in 2015. Studies in the field of trade in military products were conducted in the works of Abdurazakov, Volkov, Isingarín, Kasenov. The study of the topics of bilateral defense cooperation can be found in the works of foreign scientists Kudenko (Belarus), Gukasyan (Armenia), Buzin (Belarus), Abdullo (Tajikistan), Isingarín (Kazakhstan), Mirzaev (Uzbekistan), Parakhonsky (Ukraine), Mogilevskiy (Kyrgyzstan).

## **2. The Rationale of the problem**

At the present stage of integration of post-Soviet countries, first of all, CSTO is dominant – the military-political union of Russia, Belarus, Armenia, Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan, which is extended every 5 years. The main

task of the CSTO is to protect the territory of the participating states from military aggression, international terrorism and natural disasters. Within the framework of the CSTO, military-industrial products are traded among countries.

In part, the Russian Federation delivers military products and weapons on a gratuitous basis in the framework of either an agreement on military assistance or defensive construction. So, for example, in 2014, Russia handed over to Belarus 4 sets of anti-aircraft missile systems S-300; in 2015, 5 divisions to Kazakhstan; in 2010, 2 divisions to Armenia (Zobov et al., 2017). In 2013, Kyrgyzstan received free of charge military equipment and ammunition worth USD 1.1 billion, and Tajikistan – worth USD 0.2 billion. In general, the Russian Federation supplies military products within the framework of the sale prices of the Russian state defense procurement plan. So, large deliveries may be as follows:

1. Acquisition by Kazakhstan in 2014 for 5 billion rubles of 4 SU-30SM fighters, as well as 7 more fighters and 11 MI-35M and MI-15 helicopters.
2. Acquisition by the Republic of Belarus in 2012-2015 of 8 trainer-combat aircraft Yak-130 and 32 BTR-82A.
3. Acquisition of 36 SU-30SM fighters by Kazakhstan, 11 helicopters MI-35M, MI-17Sh, 5 divisions of the S-300PS anti-aircraft missile system.
4. Acquisition by Tajikistan of 26 armored vehicles BTR-70M, etc.

Other forms of financial mechanisms for the supply of military products are also used:

1. Export credit. Providing Armenia with export credit in 2015 for USD 200 million for the acquisition of MLRSSmerch, short-range ballistic missile system Iskander-M, MANPADS Igla-S and Verba, ADMS Buk-M1-2, etc. (Zhirnov, 2011).
2. Providing to Russia the possibility of using military facilities in the territory of other countries. For example, in Tajikistan, according to the agreement of 2012, until 2042, the 201<sup>st</sup> military base is located, for the use of which the Russian Federation provides gratuitous supply of military products and personnel training, and in Kyrgyzstan, under the same conditions, the Russian airbase Kant is operating (in 2013, there was a delivery of arms to the amount of USD 1.1 billion) (Khetagurov, 2017).

Cooperation among the CSTO member countries is also actively developing in the military-industrial sector. So, about 400 Russian defense enterprises have cooperative ties with the Republic of Belarus, in particular, one should mention the cooperation of the Almaz-Antey Air Defense Concern (Russian Federation) with the Agat (Republic of Belarus) enterprise with regard to the modernization of ADMS Buk, and the cooperation of JSC "Scientific and Production Association" SPLAV (Russian Federation) with the Republican Production Unitary Enterprise "Factory of Precise Electromechanics" (Republic of Belarus) with respect to the modernization of MRLS Grad, etc.

It is worth noting that the CSTO member states have an Agreement on the Basic Principles of Military-Technical Cooperation and three protocols thereto, while the final version provides for preferential transfers of arms and military equipment, but it has a framework character, since it does not specify in detail the mechanisms for procurement and payment. These issues are resolved by bilateral intergovernmental agreements:

1. In 1997, a Treaty of Friendship, Cooperation and Mutual Assistance was concluded between Russia and Armenia, according to which both countries pledged to assist each other in case of military aggression. According to the 1992 Treaty on the Status of the Border Troops of the Russian Federation, 4 Russian detachments are located in Gyumri, Armavir, Artashat and Meghri.

In 2013, a bilateral agreement was signed on the development of military-technical cooperation, which defines the procedure for the supply of military products to the parties without issuing an import/export license. Starting from 1991 to 2014, Russia delivered products worth USD 521 million. At the same time, in 2013 the "KamAZ-Armenia" service center was established in Yerevan, which, in addition to selling KamAZ products, repairs military equipment and armaments.

In 2017, Armenia initiated three agreements worth more than USD 100 million as part of the supply of military products. At the same time, the financial mechanism assumes the use of an export credit (USD 200 million), to be facilitated in 2018-2022 for 15 years at 3% per annum with a maturity in 2022-2023. It is worth noting that the supplied products are exempt from customs duties. But the Russian side is controlling the use of supplied military products, ensuring that they are not reexported, including to Nagorno-Karabakh, and the settlement currency is provided for directly in contracts.

2. The Republic of Belarus is of key importance to the Russian Federation, since it is the only ally on the western borders. The main deliveries of military products from Russia to Belarus are carried out on a gratuitous and / or preferential basis (for example, the delivery of S-400 anti-aircraft missile systems), since the territory of the Republic of Belarus has a radar station "Volga" (Gantsevichi) and the 43<sup>rd</sup> communication base of the Russian Navy (Vileika). Also, Russia is modernizing military equipment. Also, the Russian Federation and the Republic of Belarus jointly develop and place military orders, form defense policy, cooperate in the field of military policy on the basis of the Treaty on Military Cooperation. Since 2004, an agreement has been in force on the logistics of the regional group of forces, within which Russian troops can use the infrastructure of the Republic of Belarus, if necessary.

The Republic of Belarus is more dependent on Russian supplies. Nevertheless, the Russian Federation depends on the deliveries of the Minsk Wheel Tractor Plant, which produces chassis for mobile complexes, such as Topol-M, S-300, S-400, etc.

3. With Kazakhstan, the Russian Federation concluded in May 1992 the Treaty of Friendship, Cooperation and Mutual Assistance, which included, among other things, the creation of a military-strategic space and the joint use of military bases. And since 2001, the bilateral commission on military-technical cooperation has been actively working. Beginning in 1991 and until 2015, Russia supplied military products worth USD 1.366 billion to Kazakhstan, while part of the products was supplied free of charge, and since 2004, deliveries have been made on preferential terms at Russian domestic prices. Thus, during 10 years since 1995, Kazakhstan purchased 14 SU-27S fighters, 13 L-39S, IL-76M, 39 MI-8/17 helicopters, 3 Ansat helicopters, 4 SU-30SM fighters, etc.

It is also planned to create a joint venture to assemble Ka-226T helicopters. Also, on a no-cost basis, the Russian party handed over 5 S-300 air defense systems and signed a maintenance contract. At the same time, Russia rents 7 military facilities in the territory of Kazakhstan: the Baikonur Cosmodrome, the 929th State Flight Test Center of the Russian Defense Ministry named after V. Chkalov, the radio technical unit Balkhash, etc.

4. There are several facilities in Kyrgyzstan that belong to the Ministry of Defense of the Russian Federation, for example, the long-distance communication center in Kara-Balta, the test base for anti-submarine weapons at Lake Issyk-Kul, the 999th airbase in Kant, the Mailuu-Suu seismic station. In 2012, an agreement was signed on the formation of the United Russian military base in the territory of Kyrgyzstan (Rosoboronexport). In 2018, the Treaty on the Development of Military-Technical Cooperation, signed in 2017, was ratified, which, among other things, improved the mechanism for the supply of military products.

The Russian Federation in 2012 provided to Kyrgyzstan USD 1.1 billion for rearmament (small arms, combat vehicles, helicopters, etc.), not in the form of export credit, but in the form of gratuitous military assistance. Artillery systems with spare parts, aviation and armored vehicles, ammunition, etc. were also delivered. At the same time, the Russian party will not pay for the lease of the military base until 2032, by writing off Kyrgyzstan's debts to the amount of about USD 0.5 billion.

5. In 1993, the Russian Federation and the Republic of Tajikistan entered into the Treaty of Friendship, Cooperation and Mutual Assistance. In 2012, an agreement was signed on the status and conditions of the Russian military base in the territory of the Republic of Tajikistan, as well as memoranda of cooperation in the military field.

In 2017, Tajikistan received from the Russian Federation, as a grant, military products worth USD 122 million, such as helicopters, communications, armored weapons, small arms and artillery weapons, etc., including 3 T-72B1 tanks, 9 BTR-80, BTR-70 armored vehicles for the protection of southern borders.

Tajikistan hosts the 201st Russian military base, the largest outside the Russian Federation, and carries out a peacekeeping mission on the Tajik-Afghan border. In Nurek, there is a complex of optical observation of space objects "Okno".

6. Cooperation between the Russian Federation and Uzbekistan is based on the Treaty on Friendship and Cooperation concluded in 1992, the Agreement on the Principles of Mutual Technical and Material Support of the Armed Forces, concluded in 1994, the Treaty on the Further Deepening of Comprehensive Cooperation in the Military and Military-Technical Fields, in 1999, etc.

In the 2000s, Russia supplied to Uzbekistan various types of small arms, ammunition, spare parts for armored vehicles, etc. (Shaklein, 2002). In 2007, a joint venture, UzRosAvia, was established, which is engaged in the repair and maintenance of MI helicopters.

In 2017, Russia and Uzbekistan signed the Treaty on the Development of Military-Technical Cooperation, within the framework of which military assistance, arms repair, etc. will be provided. Also, an agreement was signed for the purchase of 12 MI-35 helicopters (Zakharov, 2014), to be delivered since 2018.

The intensification of Russia's military cooperation with the CSTO member countries is closely linked to the loss of political and economic influence on Ukraine. Deliveries of arms to Ukraine at the moment, primarily, are connected with the United States, which turned out to be in the form of gratuitous military assistance. The United States has developed a system of grants for a number of countries, which allows them to purchase ammunition, military equipment manufactured by the United States. But the maintenance is already funded by the country. At the same time, in 2016, Ukraine received US aid worth USD 42 million for lethal weapons, i.e. capable of causing damage to a person, for example, military equipment.

It is assumed that the financial mechanisms listed above for the supply of military products to the CSTO member states allow the Russian Federation to influence the countries that are in its sphere of influence, and Russia actively uses them to strengthen control. To test the hypothesis, it is necessary to analyze the data of arms supplies to the CSTO before and after the events in Ukraine, to build trends for the future period for the possibility of subsequent comparison of the expected results. Also, the systematization of financial mechanisms will further effectively manage these instruments to strengthen and expand the sphere of influence of the Russian Federation to countries that are of economic and political interest to it.

### **3. Methods**

At the moment, it is possible to systematize the financial mechanisms adopted among the countries of the CSTO as follows:

- export credit K1;
- gratuitous aid against certain preferences K2;
- purchase at preferential prices K3.
- gratuitous aid in the framework of formation of a unified air defense system – K4;
- production cooperation K5.

These financial mechanisms are ranked by the degree of their attractiveness for their use by the Russian Federation with the CSTO countries. Export credit is the most attractive form, since it allows one to influence the recipient country, on the one hand, providing a commitment zone, on the other hand – it guarantees a return, albeit at a minimum interest.

Providing gratuitous aid against certain preferences, including the deployment of military bases, on the one hand, makes it impossible to obtain financial resources; on the other hand, it ensures the advantages that are significant in the military and political spheres. Purchase at preferential prices provides the Russian Federation with the compensation for the military products supplied, but the degree of influence is caused only by the opportunity of purchasing products at preferential domestic prices. Providing gratuitous aid within the framework of the formation of a unified air defense system K4 allows the supplier country to provide defense to the countries of its sphere of influence, but it makes it impossible to obtain financial and other resources for the supplied military products.

Production cooperation allows for establishing close industrial ties with the countries of the zone of influence and ensuring their stability; however, breaking ties, as in the case of Ukraine, can lead to difficulties in making military products. So, since 2014, the Russian Federation has been forced to develop an import substitution strategy to prevent idle production facilities. Thus, the last mechanism is quite risky and has less weight. To determine the effectiveness of the application of the financial mechanism for each country, the following formula should be used:

$$K_{\text{attr}} = \frac{\sum_j^n B_j R_j}{\sum_j^n R_j},$$

Where  $B_j$  is the cost of goods delivered;

$R_j$  is the quantity of goods delivered;

$K_{\text{attr}}$  is the coefficient of attractiveness of the financial mechanism.

For comparison among countries, the coefficient of attractiveness of the financial mechanism must be multiplied by the weights that are formed according to the ranking by attractiveness. In this way:

K1 will have a weight of 5;  
 K2 – of 4;  
 K3 – of 3;  
 K4 – of 2;  
 K5 – of 1.

Therefore, the formula will look like:

$$K_{\text{attr.country}} = K1 \times 5 + K2 \times 4 + K3 \times 3 + K4 \times 2 + K5 \times 1$$

Thus, it is possible to compare the effectiveness of the financial mechanism of each CSTO country separately. It should be noted that there are practically no complete data on all military shipments of military products. However, one can analyze the publicly available data. Table 1 presents data on arms exports from the Russian Federation to the CSTO countries (Stockholm International Peace Research Institute).

**Table 1:** Export of weapons from the Russian Federation to the CSTO countries, 2010-2017

|                   | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | Total | a <sub>0</sub> | a <sub>1</sub> |
|-------------------|------|------|------|------|------|------|------|------|-------|----------------|----------------|
| <i>Armenia</i>    | 46   | 2    | -    | 16   | -    | -    | 110  | 14   | 188   | 37.60          | 4.4            |
| <i>Belarus</i>    | -    | 75   | 75   | 75   | 60   | 87   | 103  | 145  | 620   | 88.57          | 9.93           |
| <i>Kazakhstan</i> | 50   | 45   | 75   | 54   | 28   | 441  | 198  | 163  | 1054  | 131.75         | 36.11          |
| <i>Kyrgyzstan</i> | -    | -    | -    | -    | -    | 4    | 9    | 13   | 26    | 8.67           | 4.5            |
| <i>Tajikistan</i> | -    | -    | -    | -    | -    | -    | 8    | -    | 8     | -              | -              |

**Source:** Calculated by the authors based on data retrieved at <http://armstrade.sipri.org>

Using the formula of a linear trend, one can identify a trend for subsequent years:

$$Y_t = a_0 + a_1 t$$

Accordingly, the parameters of the linear trend can be calculated as follows:

$$a_0 = \bar{y} = \frac{\sum y}{n}$$

$$a_1 = \frac{\sum yt}{\sum t^2}$$

Based on the above formulas, one can calculate the parameters of the linear trend and build a trend for 2018 for countries that have the dynamics of supply in Tables 2, 3, 4, 5.

**Table 2:** Calculation of parameters of the linear trend of arms exports from Russia to Armenia

*Figures are SIPRI Trend Indicator Values (TIVs) expressed in millions*

| Year  | t  | y   | yt  | t <sup>2</sup> | Yt   |
|-------|----|-----|-----|----------------|------|
| 2010  | -2 | 46  | -92 | 4              | 28.8 |
| 2011  | -1 | 2   | -2  | 1              | 33.2 |
| 2013  | 0  | 16  | 0   | 0              | 37.6 |
| 2016  | 1  | 110 | 110 | 1              | 42   |
| 2017  | 2  | 14  | 28  | 4              | 46.4 |
| Total | 0  | 188 | 44  | 10             | 188  |
| 2018  | 3  | -   | -   | -              | 50.8 |

**Source:** Calculated by authors based on data retrieved at <http://armstrade.sipri.org>

**Table 3:** Calculation of parameters of the linear trend of arms exports from Russia to Belarus

*Figures are SIPRI Trend Indicator Values (TIVs) expressed in millions*

| Year  | t  | y   | yt   | t <sup>2</sup> | Yt     |
|-------|----|-----|------|----------------|--------|
| 2011  | -3 | 75  | -225 | 9              | 58.79  |
| 2012  | -2 | 75  | -150 | 4              | 68.71  |
| 2013  | -1 | 75  | -75  | 1              | 78.64  |
| 2014  | 0  | 60  | 0    | 0              | 88.57  |
| 2015  | 1  | 87  | 87   | 1              | 98.50  |
| 2016  | 2  | 103 | 206  | 4              | 108.43 |
| 2017  | 3  | 145 | 435  | 9              | 118.36 |
| Total | 0  | 620 | 278  | 28             | 620.00 |
| 2018  | 4  |     |      |                | 128.29 |

**Source:** Calculated by the authors based on data retrieved at <http://armstrade.sipri.org>

**Table 4:** Calculation of parameters of the linear trend of arms exports from Russia to Kazakhstan

*Figures are SIPRI Trend Indicator Values (TIVs) expressed in millions*

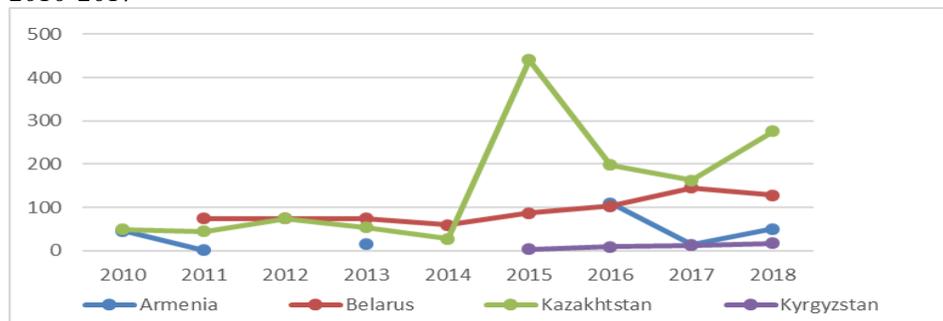
| Year  | t  | y    | yt   | t <sup>2</sup> | Yt     |
|-------|----|------|------|----------------|--------|
| 2010  | -3 | 50   | -150 | 9              | 23.43  |
| 2011  | -2 | 45   | -90  | 4              | 59.54  |
| 2012  | -1 | 75   | -75  | 1              | 95.64  |
| 2013  | 0  | 54   | 0    | 0              | 131.75 |
| 2014  | 0  | 28   | 0    | 0              | 131.75 |
| 2015  | 1  | 441  | 441  | 1              | 167.86 |
| 2016  | 2  | 198  | 396  | 4              | 203.96 |
| 2017  | 3  | 163  | 489  | 9              | 240.07 |
| Total | 0  | 1054 | 1011 | 28             | 1054   |
| 2018  | 4  | -    | -    | -              | 276.18 |

**Source:** Calculated by the authors based on data retrieved at <http://armstrade.sipri.org>

**Table 5:** Calculation of parameters of the linear trend of arms exports from Russia to Kyrgyzstan

| Figures are SIPRI Trend Indicator Values (TIVs) expressed in millions |    |    |    |                |       |
|---|----|----|----|----------------|-------|
| Year  | t  | y  | yt | t <sup>2</sup> | Yt    |
| 2015  | -1 | 4  | -4 | 1              | 4.17  |
| 2016  | 0  | 9  | 0  | 0              | 8.67  |
| 2017  | 1  | 13 | 13 | 1              | 13.17 |
| Total   | 0  | 26 | 9  | 2              | 26    |
| 2018  | 2  | -  | -  | -              | 17.67 |

Source: Calculated by the authors based on data retrieved at <http://armstrade.sipri.org>

**Figure 1:** Export of weapons from the Russian Federation to the CSTO countries, 2010-2017

Source: Developed by the authors on the basis of the above statistical data.

Analyzing the data of the tables and the data obtained during the construction of the trend, one can conclude that the supply of military products had increased after 2014. One of the factors in the intensification of these supplies was the events in Ukraine and the withdrawal of Ukraine from the zone of influence of the Russian Federation. At the same time, the main financial mechanism for trade in military products with Ukraine was production cooperation, which was not a sufficiently effective tool for influencing the countries of the zone of influence.

#### 4. Discussion

Analyzing the above, it can be concluded that the Russian Federation supplies military technologies and arms to the CSTO countries by either providing military aid or gratuitous aid within the framework of certain defense construction of the two countries. Accordingly, contractual supplies of military products under commercial transactions are practically missing, trading only at preferential and domestic prices in Russia. Domestic and preferential prices are symmetric with prices set in the framework of the state defense procurement program of the Russian Federation. It was at these prices that military products were delivered to Kazakhstan within the framework of contracts 2014-2016, to Belarus under the contracts 2012-2015, to

Armenia under the contract of 2015. Another important financial mechanism within the CSTO countries is the supply of military equipment and technological processes in exchange for the possibility of placing or renting military facilities by the Russian Federation in the CSTO countries. With the help of such a financial mechanism, military products are supplied to Tajikistan, Kyrgyzstan. Another financial mechanism is the cooperation ties of the military-industrial sector of the two countries.

The main partner among the CSTO countries for cooperation is the Republic of Belarus; the next most important partner is Armenia, which joined the intergovernmental financial and industrial group "Defense Systems" (Russian-Belarusian company) and the formation of service centers for the Russian military base in Gyumri. With Azerbaijan (in the field of creating tactical missiles) in 2016 and Kazakhstan (in the field of the defense industry and aerospace sphere) in 2017, agreements were reached on joint participation in the military-industrial sectors of the countries. Also of interest is the financial mechanism for the supply of military equipment to Azerbaijan, since there is a certain conflict of interests between Baku and Yerevan with respect to Nagorno-Karabakh, and the Russian Federation trades with both countries. Nevertheless, deliveries to Azerbaijan are carried out at export prices and within the framework of maintaining parity and maintaining the military balance of the two countries.

Thus, the deliveries of Russian military equipment play a role of buffers and counterweights, holding both parties. Azerbaijan, while remaining one of the notable clients (up to 80% of purchases of the budget, and 5% in total Russia's exports), nevertheless strives to diversify its purchases, buying from Belarus, Ukraine, Turkey, the US and other countries. Azerbaijan purchases the following types of weapons: S-300 SAM, Tor-2ME missile system, MI-35, MI-37 helicopters, T-90S and 118 BMP-3 tanks, MLRS Smerch, etc. For Armenia, Russian arms supplies are virtually nonalternative, due to the limited military budget. Although, there is certain scientific and production cooperation with Ukraine, Lithuania, Iran, and China. India and Poland and some units of the Armenian Armed Forces take part in military exercises with NATO countries, in international peacekeeping operations, including in Iraq, Kosovo, Afghanistan, etc. In 2016, Armenia purchased 4 Russian Iskander-E missile defenses to establish the parity of Azerbaijan's purchase of 18 MLRS Smerch and Tochka-U missile systems, as well as purchases from Kasirga (Turkey) of MLRS T-300. Since 2015, the CSTO has practically ceased cooperation with Ukraine, which forced the Russian Federation to promptly form a policy of import substitution in the field of military-technical cooperation, including setting up supplies from Belarus, Armenia and Kyrgyzstan.

The correctness of the systematization of financial mechanisms in the section "Methods", including the definition of the last place of production cooperation, is right, which is confirmed by the fairly rapid disruption of cooperation between the

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Russian Federation and Ukraine, even despite significant financial and reputational losses of Ukraine. Below are some of them:

1. The Russian Federation produced the Topol-M and Bulava missile complexes jointly with the design office "Yuzhnoye" in Dnepropetrovsk. At the current moment, a complete shift of production to Russian plants has been completed. Ukraine lost about 1 thousand jobs and about USD 2 billion of missed profits.
2. The refusal of "Yuzhmash" (Dnepropetrovsk) from the joint development and production of the rocket "Scalpel" led to a loss of profit of USD 500 million per year and further development at the Moscow Institute of Heat Engineering.
3. Production of modern modifications of missiles (class P-77) for fighters by Russian companies in consequence of the refusal of the state-owned company Artem (Kiev) to cooperate led to a reduction in jobs.
4. JC "UEC Klimov" (St. Petersburg) has replaced Zaporozhye "Motor-Sich" company, which lost about USD 500 million, in the production of helicopter engines for Ka-60, TVZ-117, VK-2500 helicopters.
5. The loss of cooperation with the Dnipropetrovsk machine-building plant has led to the start of construction of two Russian plants that will produce anti-aircraft systems S-400.
6. The rights to assemble the military transport version of the An-140 aircraft moved from Antonov (Kiev) to the Aviakor (Samara) plant, now Ukraine needs about USD 4 billion to start production.
7. JSC "Information Satellite Systems" (Zheleznogorsk, Krasnoyarsk Region), production corporation "Polyot" (Omsk) and JSC SRC "Progress"(Samara) instead of state enterprise "Kievpribor Production Association" (Kiev) are now engaged in the production of components for combat aircraft and air defense systems. A full cycle of production will take about 2-3 years.

Despite the above-mentioned financial losses, official Kiev went on to break off relations and military cooperation with Moscow, which allows stating the least effectiveness of the financial mechanism of cooperative ties.

## **5. Conclusion**

CSTO member countries are rapidly developing military-technical cooperation, which involves the supply of military equipment and weapons at preferential prices. It should be noted that preferential prices are also applied to a number of CIS countries, but the CSTO countries have priority in procurement. The CSTO countries have concluded an agreement under which its members are obliged to consult with each other in case of a request from a third party for the possibility of deploying military bases in the territory of the participating country. Also, Russia has strengthened its presence in these regions. This is primarily due to the fact that in 2001 the US agreed to deploy its bases in Uzbekistan (strongpoint), Kyrgyzstan and Tajikistan. In connection with the deterioration of the political situation in the country and the complication of relations with the United States, in 2005,

Uzbekistan demanded the closure of military bases in its territory, while preserving the German presence in Termez.

In general, the CSTO is aimed at creating regional groupings of troops, developing military-technical cooperation, training military specialists, countering international terrorism, illicit drug trafficking and illegal migration, coordinating positions on security issues, and formation of a common legal framework.

Using financial mechanisms, the Russian Federation strives to form joint ventures for the production and R&D of military equipment and military products, to create a network of service enterprises for repair and modernization of military products, to equip the armed forces with common weapons. Together, financial mechanisms and joint scientific and technical cooperation allow the Russian Federation to actively influence the position of the CSTO member countries, thus preventing a potential break of ties, as happened with Ukraine.

### **Acknowledgements:**

The paper was prepared with the financial support of the Russian Foundation for Basic Research in the framework of the research project "Strengthening military-economic cooperation in the space of the Collective Security Treaty Organization and the Eurasian Economic Union in the context of the sanctions' policy of developed countries and the development of import substitution in the Russian Federation", project No. 18-010-01132.

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